

CHAMPION INDUSTRIES INC  
Form PRER14A  
May 25, 2016

SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
\*\*\*PRELIMINARY COPY\*\*\*  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. 3)

Filed by the Registrant   
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to sec. 240.14a-11(c) or sec. 240.14a-12

Champion Industries, Inc.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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CHAMPION INDUSTRIES, INC.

P. O. Box 2968  
Huntington, West Virginia 25728

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

to be held May/June \_\_\_\_, 2016

To The Shareholders:

A special meeting of shareholders of Champion Industries, Inc. (sometimes referred to as “Champion” or the “Company”) will be held at the Pullman Plaza Hotel, 1001 Third Avenue, Huntington, West Virginia, on \_\_\_\_\_, May/June \_\_\_\_, 2016 at 1:00 p.m. local time for the following purposes:

1. To approve proposed amendments to Article 7 of Champion’s Articles of Incorporation (capital stock) to effectuate a 1:200 reverse stock split of all the common shares of the Company, and related resolutions authorizing the Board to implement the reverse stock split, or abandon the proposed reverse stock split up until the time Articles of Amendment to the Company’s Articles of Incorporation are actually filed with the West Virginia Secretary of State), as more fully disclosed in the accompanying proxy statement.
2. To approve proposed amendments to Article 7 of Champion’s Articles of Incorporation (capital stock) to authorize and create a new class of capital stock, specifically 2,500 shares of Preferred Series A stock having a par value of \$1,000.00 per share, and having such other rights and attributes, as more fully disclosed in the accompanying proxy statement.
3. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record of the Common Stock of Champion Industries, Inc. at the close of business on \_\_\_\_\_, 2016 are entitled to notice of this meeting and to vote at the meeting.

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Important Notice Regarding the Availability of Proxy Materials for the Special Shareholder Meeting to be held on May/June \_\_\_\_, 2016. This Proxy Statement and the Annual Report to Shareholders for the year ended October 31, 2015 are also available at <https://materials.proxyvote.com/158520>. In addition, a Preliminary Schedule 13E-3 was filed by Champion as of February 12, 2016 and amended as of April 6, 2016, and such Schedule 13E-3, as amended, is also available at <https://materials.proxyvote.com/158520>. You are encouraged to check for any and all amendments to these materials prior to the special meeting of stockholders, which also will be made available at <https://materials.proxyvote.com/158520>.

We hope you will attend the meeting and vote your shares in person. However, since a majority of the outstanding shares must be present in person or by proxy in order to conduct the meeting, we urge you to date, sign and return the enclosed proxy as promptly as possible, whether or not you plan to attend the meeting in person. If you do attend the meeting, you may then withdraw your proxy if you so desire. The proxy may be revoked at any time prior to its exercise, but after commencement of the special meeting, the proxy may be revoked only in accordance with the order of business adopted for the meeting.

Dated: May/June \_\_\_\_, 2016  
Board of Directors

By Order of the

Donna Connelly, SECRETARY

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CHAMPION INDUSTRIES, INC.

P. O. Box 2968  
Huntington, West Virginia 25728

PROXY STATEMENT

\*\*\*PRELIMINARY COPY\*\*\*

SPECIAL MEETING OF SHAREHOLDERS  
to be held May/June \_\_, 2016

INTRODUCTION

The accompanying proxy is solicited by and on behalf of the Board of Directors (the “Board”) of Champion Industries, Inc. (the “Company”) for use at the special meeting of shareholders to be held on \_\_\_\_, May/June \_\_, 2016, at 1:00 p.m. local time at the Pullman Plaza Hotel, 1001 Third Avenue, Huntington, West Virginia, and any adjournment thereof (the “Special Meeting”). The Company anticipates that this Proxy Statement and the form of proxy will be sent or given to shareholders on approximately May/June \_\_, 2016.

Only those shareholders of record as of the close of business on \_\_\_\_, 2016 are entitled to notice of and to vote at the meeting and any adjournment thereof. At such time the Company had, and it presently continues to have, only one (1) class of stock outstanding, consisting of 11,299,528 issued and outstanding shares of Class A common stock, of the par value of One Dollar (\$1.00) per share (the “Common Stock”) held by approximately 346 share-holders of record. The Common Stock carries no preemptive rights. No shares of the authorized Class B (nonvoting) common stock authorized by the Company’s Articles of Incorporation have been issued.

One of the proposals to be considered at the special meeting of the shareholders (namely, Proposal Number One) on the accompanying form of Proxy relates to proposed amendments to the Articles of Incorporation to effectuate a proposed 1:200 reverse stock split, related shareholders resolutions, and certain related transactions. Below is a section that summarizes material terms relating to Proposal Number One and such related resolutions and transactions. After that section is a “Special Factors” section that contains additional information concerning the proposed reverse stock split and related matters.

This proxy statement also includes information concerning Proposal Number Two relating to proposed amendments to Article 7 of Champion’s Articles of Incorporation (capital stock) to authorize and create a new class of capital stock, specifically 2,500 shares of Preferred Series A stock having a par value of \$1,000.00 per share and having the other rights and attributes, as more fully disclosed in the accompanying proxy statement.

SUMMARY OF MATERIAL TERMS OF REVERSE STOCK SPLIT  
AND RELATED TRANSACTIONS

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. To better understand the terms and conditions of the proposed 1:200 reverse stock split and certain related transactions and the consequent amendments to the Company’s Articles of Incorporation, you should carefully read this entire document, its attachments and the other documents referred to in this proxy statement.

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If approved, as more fully disclosed in the accompanying proxy statement, the proposed amendments to Article 7 of the Company's Articles of Incorporation that are the subject of Proposal Number One would allow the Board to implement a proposed 1:200 reverse stock split.

- Pursuant to the proposal, for each 200 shares of Class A Common Stock held by a shareholder immediately before the reverse stock split, such shareholder would receive one share of Class A Common Stock post-split.
  - The Company intends to have no fractional shares after the reverse stock split.
- In lieu of fractional shares, the Company would pay thirty cents (\$0.30) for each pre-split share to each shareholder who after the reverse stock split had, in whole or in part, any fractional share interest.
- Accordingly, stockholders holding fewer than 200 shares of common stock immediately before the reverse stock split will have a fractional share of less than one (1.0) whole share after the split. Such stockholders (sometimes referred to as the “Cashed-Out Stockholders”) will have their shares canceled post-split, and in lieu of fractional shares will be entitled to receive a cash payment of thirty cents (\$0.30) for each such share owned before the reverse stock split.
- Stockholders holding 200 or more shares of common stock immediately before the split would receive one share for each 200 common shares held, and, as applicable, any resulting (post-split) fractional shares consisting of less than one (1.0) whole share will be cancelled and converted into the right to receive from the Company a cash payment of thirty cents (\$.30) for each such share owned before the reverse stock split. To the extent any shareholder, including any affiliated shareholder, owns a number of pre-split shares that is greater than 200 but is not evenly divisible by 200, then the fractional shares of such shareholder (including any affiliated shareholder) resulting from the proposed reverse stock split would be cashed out at \$0.30 per pre-split share. The maximum amount payable to anyone shareholder (including any affiliated shareholder) would be \$59.70 (199 pre-split shares at \$0.30 per pre-split share).
- Cash consideration will only be paid for fractional shares, and only to shareholders whose post-split shares will consist entirely of, or will include in part, fractional shares consisting of less than one (1.0) whole share of the post-split Class A Common Stock.
- Approval of the proposed amendments to Article 7 of the Company’s Articles of Incorporation, and related shareholders resolutions, to effectuate the reverse stock split, will require approval by holders of a majority of the outstanding shares of Common Stock entitled to vote thereon. (See Annex 2).
- If the proposed amendments are approved by the Company’s stockholders and implemented, the Company expects to have fewer than 300 stockholders of record of its outstanding common stock, in which event the Company intends to deregister its shares and cease to be a reporting company under the Securities and Exchange Act of 1934, as also more fully disclosed in the accompanying proxy statement.
- Though it will no longer be required to do so by the Exchange Act or Securities and Exchange Commission (“SEC”) rules and regulations, following deregistration the Company plans to continue to provide stockholders with annual audited financial statements and quarterly unaudited financial statements and to solicit proxies in connection with its annual stockholder meeting.

- The Board established a process for considering a possible transaction at its September 21, 2015 meeting, appointing a Special Committee of independent, disinterested and non-employee directors (Louis J. Akers and Glenn W. Wilcox, Sr.) to explore and evaluate potential transactions that would allow the Company to have fewer than 300 stockholders of record and deregister with the SEC, including a possible reverse stock split followed by deregistration. The Board charged the Special Committee with exploring alternatives, evaluating the advantages and disadvantages of a possible transaction, and making a recommendation to the full Board. The Special Committee on January 13, 2016 recommended the proposed 1:200 reverse stock split and related transactions that are the subject of Proposal Number One and are summarized in this section and in other sections of this proxy statement. See “Special Factors - Deliberations of the Board and Special Committee”, and “Special Factors - Fairness of Proposed Reverse Stock Split”.
- The Board, after consideration of various factors including the recommendations of the Special Committee, adopted resolutions accepting and adopting the Special Committee’s recommendations and supporting rationale, authorizing the proposed amendments to the Company’s Articles of Incorporation to effectuate the reverse stock split and related transactions including subsequent deregistration, and submitting those to a vote of shareholders.
- The Special Committee met four times concluding with its final meeting of January 13, 2016. The Special Committee made its recommendations after considering a number of factors. During its review process leading to its recommendations, the Special Committee considered, among other things:
  - o purposes of the proposed reverse stock split and subsequent deregistration;
    - o alternatives to the proposed transactions;
  - o key advantages and disadvantages of the proposed transactions, including possible mitigating factors for some disadvantages;
    - o estimated cost savings to be achieved by deregistration;
    - o estimated transaction costs associated with the reverse stock split and subsequent deregistration;
  - o different potential reverse split ratios and the reverse split ratio to recommend to the Board if the proposed transactions ultimately were pursued;
  - o what cash-out price per pre-split share would be fair to pay for resulting fractional shares (post-split) of the proposed reverse stock split both substantively and procedurally;
  - o draft valuation report of Chaffe & Associates, Inc., independent third party valuation firm (it should be noted that the draft valuation report was not a fairness opinion and that neither the Special Committee nor the Board obtained a fairness opinion);
  - o trading volumes, liquidity and price history of the Company’s registered Class A Common Stock, including its volume-weighted average price over the preceding 52 weeks prior to the January 8, 2016 data the Committee and Board reviewed; and
    - o other factors relating to the fairness.

See “Special Factors – Deliberations of the Board and Special Committee”.





- The Special Committee, and ultimately the Board, determined that it was in the best interests of the Company and shareholders to implement the proposed reverse stock split and subsequent SEC deregistration as summarized in this section and discussed in more detail in other parts of this proxy statement. See “Special Factors – Deliberations of the Board and Special Committee”, and “Special Factors - Fairness of the Proposed Reverse Stock Split” .
- The Special Committee and ultimately the Board made the following determinations as to benefits of these proposed transactions and potential alternatives:
  - o The primary benefits to the Company of doing a reverse stock split and subsequent deregistration are (a) to achieve savings of the annual costs of being a public company required to file reports with the SEC under the Securities and Exchange Act of 1934, and (b) free management and staff time to focus on long-term business objectives as well as internal financial reporting and analytics to support those objectives. However, there are other benefits or advantages of the proposed transactions as well. If the proposed transaction is approved by the stockholders and implemented, the Company estimates that the cost savings resulting from no longer being an SEC-reporting public company will be approximately \$220,000 per year. Estimated transaction costs are expected to be less than \$150,000 including estimated total cash payment of approximately \$26,400 to purchase fractional share interests that will be cashed out. The Company expects to pay such transaction costs and consideration for such fractional share interests from existing cash reserves.
  - o The alternatives are either not feasible or (as in the case of continuing the status quo) would not allow the Company to achieve these potential benefits.
  - o Doing nothing and continuing the status quo also could significantly reduce the pace of recovery (i.e., restoring profitability) and slow growth (i.e., growing profitability), given the financial position of the Company and the state of the industries in which it operates.
  - o A potential advantage of the proposed transactions to potential Cashed-Out Stockholders and to other shareholders who end up with any fractional shares after the reverse stock split, is that the Company will purchase their fractional shares of Common Stock without charging brokerage commissions or other costs normally associated with the sale of securities
  - o Also, if stockholders wish to become Cashed-Out Stockholders but have 200 or more common shares presently, they can do that by selling part of their holdings in order to get below 200 shares and thereby have their remaining shares cashed out after the split. Similarly, if stockholders have less than 200 common shares presently and do not wish to become Cashed-Out Shareholders they can do so by purchasing additional shares so that they hold at least 200 common shares immediately before the reverse stock split.

See “Special Factors – Deliberations of the Board and Special Committee”, and “Special Factors - Fairness of the Proposed Reverse Stock Split”.

- The Special Committee, and ultimately the Board, further determined that the potential advantages outweighed the potential disadvantages of the proposed reverse stock split and subsequent deregistration.
- o In addition to the disadvantage that Cashed-Out Stockholders will cease to be shareholders if the proposed reverse stock split is approved and carried out, and thus will not receive certain benefits of the proposed transactions, the Special Committee and the Board considered various other potential disadvantages of the proposed transactions. Specifically, Cashed-Out Shareholders would not enjoy the benefits of (a) the annual savings that the Company anticipates it would experience by no longer being a public reporting company (estimated at approximately \$220,000 annually, offset in the first year by transaction costs that are anticipated not to exceed \$150,000), (b) any subsequent potential beneficial impacts those anticipated annual savings might have in terms of helping restore the Company to profitability and/or grow profitability after and if it is restored (although there can be no assurance that profitability will be restored or will grow if and after it is restored); and (c) if profitability is restored, use by the Company of deferred tax benefits (net operating loss carrying-forwards) that cannot be used unless and until the Company achieves positive taxable income.
  - o In the case of some of the potential disadvantages, the Special Committee and the Board identified potentially mitigating factors including, but not limited to, (a) holders of fractional shares after the split, including Cashed-Out Stockholders, will have those fractional shares purchased by the Company, for the cash-out consideration of thirty cents (\$0.30) per pre-split share, without incurring any brokerage commissions or other costs normally associated with the sale of securities, and (b) the ability of shareholders whose holdings are somewhat more or less than 200 pre-split shares to either sell or buy shares in order to either become or avoid becoming Cashed-Out Stockholders as they may prefer.

See “Special Factors – Deliberations of the Board and Special Committee”, “Special Factors - Certain Effects of the Reverse Stock Split on the Company's Shareholders”, and “Special Factors - Fairness of the Proposed Reverse Stock Split”.

- The Company intends to try to treat shareholders holding shares of Company Class A Common Stock in street name through a nominee (such as a bank or broker), including those who hold less than 200 shares in street name through a nominee, in the same manner as shareholders whose shares are registered directly in their own names. The Company will ask its transfer agent to request that such banks, brokers and other nominees (i.e., holding shares in street name for beneficial holders), carry out and effect the reverse stock split and the proposed cash-out of fractional shares for their various beneficial holders. See “Special Factors – Beneficial Owners of the Company’s Common Stock”.
- While the Company and its transfer agent (Broadridge Corporate Issuer Solutions, Inc.) will attempt to consolidate holdings of the same shareholder, it must be noted that (a) the Company and its transfer agent may not be able to do so, for example if they do not have the necessary information to compare and/or consolidate all of a single shareholder’s registered record holdings (if any) with any shares that same shareholder may hold in street name in a brokerage account (if any), and (b) the various banks, brokers and other nominees who hold shares in street names for various beneficial holders may have different procedures for processing the reverse stock split and the cash-out of fractional shares. Therefore, it is very important that each shareholder review his or her own holdings to determine if any shares are held through a nominee that holds shares in street name, and, if some are so held, it is very important to contact the bank, broker or other nominee holding any of the shareholder’s shares in street name. See “Special Factors – Beneficial Owners of the Company’s Common Stock”.
- It also is possible that some shareholders may hold shares in multiple certificates, or in multiple street name accounts through one or more nominees, or hold a combination of both certificated shares and shares held by a nominee in street name. Therefore, it is possible that someone holding more than 200 pre-split shares in multiple certificates and/or shares held in street name by a nominee, might end up a Cashed- Out Stockholder if each separate certificate

and/or street name holding is less than 200 shares. As noted above, while the Company and its transfer agent will endeavor to consolidate holdings of a single stockholder, this may not be possible for various reasons including lack of pertinent information. Therefore, shareholders should check their holdings carefully, and contact the bank, broker or other nominee holding any of the stockholder's shares in street name, to make sure that they take appropriate steps to either become, or avoid becoming, a Cashed-Out Stockholder, as they prefer. See "Special Factors – Benefits" and "Special Factors - Deliberations of the Board and Special Committee".

- Each shareholder whose fractional share is purchased by the Company will recognize gain or loss for federal income tax purposes measured by the difference between the shareholder's basis in the fractional share and the cash consideration received for the fractional share. The gain or loss will be capital gain or loss if the share was held as a capital asset. (See "Special Factors – Federal Income Tax Treatment").
- The Board, acting on behalf of the Company, upon the recommendation of the Special Committee to the Board, has concluded that the reverse stock split, cash-out of fractional shares and related transactions (including the subsequent deregistration if the number of record shareholders is reduced below 300), is fair both procedurally and substantively (including as to the cash-out price per pre-split share to be paid in lieu of fractional shares). Without limitation, the Special Committee and the Board concluded that the proposed reverse stock split (including the proposed cash-out price) is fair both procedurally and substantively to unaffiliated security holders.
- The Special Committee and ultimately the Board evaluated price fairness, and that evaluation included consideration of the (A) multiple valuation approaches used by Chaffe in its draft valuation report (which took into account pertinent multiples for peer public companies and for transactions involving public companies in the same or similar industries, and which also included analysis of net book value as well as estimated liquidation value), as well as (B) trading history and price data for the Company's shares, including volume-weighted average price ("VWAP") per share of twenty four cents (\$0.24) per share for the prior 52-week period (as of January 8, 2016) and (C) availability of statutory appraisal rights for qualifying dissenters who satisfy the applicable statutory requirements. See "Special Factors - Statutory Appraisal Rights" and Annex 1. The thirty cents (\$0.30) per pre-split share price to be paid for cash-out of fractional shares after the reverse stock split, was considered fair. It represents an approximately 25.0% premium to the VWAP of twenty four cents (\$0.24) per share and a premium of approximately 20.0% to the then last trading price of twenty five (\$0.25) cents per share prior to the Special Committee's final meeting. It represents an approximately 42.9% premium to the twenty one cents (\$0.21) per share that was at the high end of the valuation range determined by Chaffe in its draft valuation report.
- As noted above, neither the Board nor the Special Committee obtained a fairness opinion and the Chaffe valuation report was not a fairness opinion. One of the significant differences between a fairness opinion and a valuation is the objective third party opinion of the fairness of the proposed transaction. The other major difference between a fairness opinion and valuation is the cost to the Company. The Company's board considered the monetary value and share volume of the proposed transaction and determined it was the most prudent to engage Chaffe to perform a valuation of the Company's stock to considered when determining a cash out price and fairness to those shareholders cashed out.
- Any shareholder of the Company who has and who properly exercises his or her statutory right to dissent and perfect his or her statutory appraisal rights under the West Virginia Business Corporation Act ("WVBCA"), set forth in Chapter 31D, Article 13 of the West Virginia Code (the "WVBCA Article 13"), if any, shall be entitled, with respect to any shares as to which he or she shall so dissent, to the fair value of such shares as of the day prior to the date on which the shareholders of the Company voted to approve the reverse stock split, excluding any appreciation or depreciation in anticipation of the reverse stock split. A copy of WVBCA Article 13 is set forth in Annex 1 to this proxy statement. See "Special Factors - Statutory Appraisal Rights" and Annex 1.

- The Company believes that, in the context of the proposed transaction, WVBCA Article 13 gives statutory dissenters' and appraisal rights to each Cashed-Out Stockholder, i.e., to each shareholder having less than 200 shares immediately before the reverse stock split, whose pre-split shares therefore would be reduced to only a fractional share after the split (consisting of less than a single share of post-split common stock), which fractional share would be cashed-out completely. To exercise statutory appraisal rights, it would be necessary to follow all the procedural and other requirements of WVBCA Article 13. See "Special Factors - Statutory Appraisal Rights"; and Annex 1.
- The proposed reverse stock split and anticipated SEC deregistration after the split are considered a "going private" transaction as defined in Rule 13E-3 promulgated under the Exchange Act (a "Rule 13E-3 Transaction"). Accordingly, the Company and Marshall T. Reynolds, the controlling shareholder of the Company and the Company's Chairman of the Board, have filed a Rule 13E-3 Transaction Statement on Schedule 13E-3 with the SEC related to the proposed reverse stock split and subsequent planned SEC deregistration. An amendment to the Schedule 13E-3 also has been filed on April 6, 2016. The other directors of the Company as well as the Company's new President and Chief Executive Officer as of March 1, 2016 (Adam M. Reynolds) and its Senior Vice President and Chief Financial Officer (Justin T. Evans) have joined such Schedule 13E-3 as of the amendment thereto filed on April 6, 2016. The Schedule 13E-3 and amendment(s) thereto are available on the SEC's website at [www.sec.gov](http://www.sec.gov) or at <https://materials.proxyvote.com/158520>.
- Mr. Marshall T. Reynolds, as a controlling shareholder of the Company, is subject to Rule 13E-3 promulgated by the SEC under the Exchange Act with respect to "going private" transactions and is a "filing person" for purposes of Schedule 13E-3. Mr. Marshall T. Reynolds has, along with the Company and other affiliates identified in the next paragraph below, filed a Rule 13E-3 Transaction Statement on Schedule 13E-3 with the Commission, adopted the analysis and conclusions of the Special Committee and our Board, and concluded that the reverse stock split and subsequent deregistration are procedurally and substantively fair to the Company's affiliated and unaffiliated shareholders, including Cashed-Out Shareholders as well as shareholders who will continue to hold shares after the reverse stock split. See "Special Factors – Fairness of the Proposed Reverse Stock Split - Determination by Marshall T. Reynolds".
- Mr. Marshall T. Reynolds is the controlling shareholder of the Company. He also controls Harrah & Reynolds Corp. of which he is the sole shareholder. In addition, each of Mr. Marshall T. Reynolds, the Chairman of the Board of the Company, the other members of the Board (Louis J. Akers, Philip E. Cline, Neal W. Scaggs and Glenn W. Wilcox, Sr.), Adam M. Reynolds (the Company's President and Chief Executive Officer effective as of March 1, 2016), and Justin T. Evans, Senior Vice President and Chief Financial Officer of the Company are affiliates of the Company. As noted above, each affiliate has joined and adopted Schedule 13E-3, and concluded that the reverse stock split and subsequent deregistration are procedurally and substantively fair to the Company's affiliated and unaffiliated shareholders, including Cashed-Out Shareholders as well as shareholders who will continue to hold shares after the reverse stock split. The material facts as to each such director and/or executive officer's interest are known to or have been fully disclosed to each of the other members of the Board. For more detailed information concerning any conflict of interest of our Board or any filing person with respect to the proposed reverse stock split or concerning our relationship with any of our shareholders, please see also information under the sections of the proxy statement captioned "Security Ownership of Certain Beneficial Owners and Management", "Certain Relationships and Related Transactions", and "Special Factors – Potential Conflicts of Interests of Officers, Directors and Certain Affiliated Persons". See also "Special Factors – Fairness of the Proposed Reverse Stock Split - Determination by Marshall T. Reynolds".

- Under the proposed shareholder resolutions for Proposal No. 1, the proposed reverse stock split would not be effective until the filing of the necessary Articles of Amendment to the Articles of Incorporation of Champion Industries, Inc. are filed with the West Virginia Secretary of State. Copies of the proposed shareholder resolutions including proposed amendments to the Company's Articles of Incorporation relating to Proposal Number One relating to the proposed reverse stock split are set forth in Annex 2 of this proxy statement. (See Annex 2.) Those proposed shareholder resolutions also authorize the Board to abandon the reverse stock split, and not file the related Articles of Amendment, if the Board determines that it is no longer in the best interest of the Company to do so. See "Special Factors - Board Discretion"; see also Annex 2.
- The Company presently has 11,299,528 shares of common stock issued and outstanding. All such shares are Class A Common Stock. No Class B Common Stock has been issued. As of January 4, 2016, there were 346 shareholders of record. The Company estimates that after the proposed reverse stock split is effected, the number of shares of Common Stock outstanding will be approximately the equivalent of 11,211,528 pre-split shares in the hands of approximately 215 shareholders of record. The total number of fractional shares to be purchased is estimated to be equivalent to approximately 88,000 shares of Common Stock on a pre-split basis at a cost of approximately \$26,400. However, this is only an estimate and the exact number of shares that will be purchased in connection with the proposed reverse stock split will be determined once the proposed stock split is effective. See "Special Factors - Benefits" and "Special Factors - Financial Impact".

#### SPECIAL FACTORS

This section provides information concerning special factors relating to Proposal Number One and the proposed 1:200 reverse stock split and related transactions including the cashing out of fractional shares following such split and subsequent anticipated SEC deregistration. Sometimes in this proxy statement and in minutes of meetings of the Special Committee and of the Board, the phrase "going dark" is used to describe the process whereby corporate transactions (such as the reverse stock split) are undertaken in order to reduce the number of record shareholders of a public SEC-reporting company to less than 300 and in turn allow the company to deregister and cease to be a public SEC-reporting company.

As noted in the Summary of Material Terms (above), the proposed reverse stock split and anticipated SEC deregistration after the split are also considered a "going private" transaction as defined in Rule 13E-3 promulgated under the Exchange Act (a "Rule 13E-3 Transaction"). Accordingly, the Company and Marshall T. Reynolds, the controlling shareholder of the Company and the Company's Chairman of the Board, and other affiliates, have filed a Rule 13E-3 Transaction Statement on Schedule 13E-3 with the SEC related to the proposed reverse stock split and subsequent planned SEC deregistration. An amendment to the Schedule 13E-3 also has been filed on April 6, 2016. The other directors of the Company as well as the Company's new President and Chief Executive Officer as of March 1, 2016 (Adam M. Reynolds) and its Senior Vice President and Chief Financial Officer (Justin T. Evans) have joined such Schedule 13E-3 as of the amendment thereto filed on April 6, 2016. The Schedule 13E-3 is available on the SEC's website at <http://www.sec.gov> or at <https://materials.proxyvote.com/158520>

### Purpose and Reasons for the Reverse Stock Split

The primary reason for the proposed reverse stock split is to relieve the Company of the costs and associated burdens of remaining a public SEC-reporting company.

Specifically, the Board and Special Committee determined that if the proposed reverse stock split is approved by the stockholders and implemented, the estimated cost savings resulting from no longer being an SEC-registered company will be approximately \$220,000 per year. Estimated transaction costs are expected to be less than \$150,000 including estimated total cash payment of approximately \$26,400 to purchase fractional share interests that will be cashed out. The Company expects to pay such transaction costs and consideration for such fractional share interests from existing cash reserves.

It is anticipated that the proposed 1:200 reverse stock split, including the proposed cash payment of thirty cents (\$0.30) per pre-split share for all resulting fractional shares (in lieu of issuing any fractional shares) after the split, will reduce the number of the Company's record shareholders to 215. In terms of equivalent pre-split shares, it is anticipated that approximately 88,000 shares would be cashed out and the number of record shareholders (346 as of January 4, 2016) would be reduced by approximately 131.

If the shareholder resolutions relating to the reverse stock split are approved (see Annex 2 which sets forth the resolutions including the proposed forms of amendments to the Company's Articles of Incorporation), and such split is implemented, then the Company anticipates that the number of record shareholders will be reduced below 300. Under the proposed shareholder resolutions (see Annex 2), and the resolutions adopted by the Board at its January 18, 2016 meeting, the Board may abandon the proposed reverse stock split (even if approved by shareholders) at any time if the Board concludes that carrying out such split is no longer in the best interests of the Company.

If the reverse stock split is approved by shareholders and implemented, then the Company intends to terminate the registration of its Class A Common Stock under the Exchange Act pursuant to Section 12(g)(4) of the Exchange Act. Following the reverse stock split, the decision by the Company to terminate such registration does not require shareholder approval and will not be voted upon at the shareholders meeting. Subject to shareholder approval of the reverse stock split and implementation thereof, the Board of Directors has approved such deregistration at its January 18, 2016 regular meeting.

The Company determined to conduct the proposed stock split at this time to cash out shareholders with less than 200 shares. The Company's management believes this will ultimately get the Company below 300 shareholders of record and allow it to become a technically private company; relieving the Company of its Exchange Act filing and compliance requirements. This will allow the Company to take advantage of cost and time resource savings which will help reduce losses or increase profitability, as the case may be. The monetary cost savings could be redirected to improve operations through capital investments such as new equipment or business lines, greater cash flow to further take advantage of prompt payment discounts on its trade payables, improved information systems to get information to management in a timelier manner and streamline business activity, and/or improve wages and benefits packages to attract and retain quality personnel. In addition, the Company's management can reallocate the time savings to strategic matters and business initiatives such as the Company's sales structure, information systems, work flow processes, and current and future business lines.

The Company and its Management began exploration of a potential transaction in August 2015 and engaged legal counsel to assist with that process. The Board also appointed a Special Committee of independent directors, to explore whether the Company should pursue a potential transaction, and, if so, make recommendations as to the details.



The Company proposed to conduct the reverse stock split at this time, as opposed to other times in the company's history, because the Company and its Management have navigated a challenging environment over the last several years including an economic recession, sales attrition, restructuring, asset disposals, debt restructuring, and personnel turnover. The Company and its Management still have challenges, as discussed herein as well as in the Company's other public filings, but they are less pressing immediately and Management has and will continue to plan beyond the present. In addition, and just as important, the Company and its Management now believe, given the factors discussed herein, including stock performance, that the benefits of remaining a public company no longer outweigh the costs.

The Special Committee's estimate of the anticipated cost savings and transaction costs was adopted by the Board in such January 18, 2016 meeting of the Board.

Such estimated annual cost savings from no longer being a public SEC-reporting company were approximately \$220,000 per year, including approximately \$157,000 of hard costs and approximately \$63,000 of time and opportunity costs.

The Special Committee reviewed the above estimated soft costs as opportunity costs which are derived from the estimated dollar savings of time of the CFO, Controller and Staff associated with the reporting and compliance function of the Company. This cost savings is more subjective. However, management and the Special Committee (and ultimately the Board) believed that it can be reasonably assumed that the time spent doing more productive activities would at a minimum pay for itself. Management believed that these particular savings may in fact be higher ultimately, although there can be no assurance that this will be the case or that the estimated savings will be as estimated. Management's basis for this assertion was derived from the belief that the time savings would be significant for key parts of its staff and management and this would allow those individuals and groups to reallocate that time to projects and initiatives that will ultimately reward the Company and its shareholders through improved performance. This is difficult to quantify but can be reasonably assumed to have credence for a smaller reporting company with limited resources that is recovering from financial hardships created by a multiplicity of factors that have been well documented in the Company's financial filings over the past several years. The Special Committee and ultimately the Board also concluded that the time and uninterrupted focus that can be diverted to operations and business fundamentals are what is needed for the Company as it pursues its goals of returning to profitability and ultimately growing profitability.

These savings estimates are simply estimates. The actual savings to be realized may be higher or lower than such estimates.

The Special Committee's estimates of the anticipated transaction costs of the proposed reverse stock split and subsequent SEC deregistration also were adopted by the Board. Such estimates were that such costs would be less than \$150,000 including legal (\$55,000), valuation (\$20,000), share cash-out (estimated at \$26,400 for cashing out the equivalent of approximately 88,000 pre-split shares) and other costs including transfer agent fees and costs of obtaining a new CUSIP number.

These transaction cost estimates are simply estimates. They assume that there is no litigation relating to the proposed reverse stock split and related transactions, and that there are no unanticipated or unusual circumstances that arise. Actual transaction costs ultimately incurred by the Company may be higher than such estimates and could be higher by a significant amount.

Additional detail concerning both the estimated annual cost savings and transaction costs may be found in Exhibits 99.2 and 99.6 to the Schedule 13E-3 Transaction Statement as amended. The Schedule 13E-3, as it may be amended from time to time, including exhibits, is available online at the SEC's website ([www.sec.gov](http://www.sec.gov)) or at <https://materials.proxyvote.com/158520>.

Another primary advantage of the proposed reverse stock split and subsequent deregistration, in the judgment of the Special Committee and the Board, is that it is anticipated that the result will free management and staff time to focus on long-term business objectives as well as internal financial reporting and analytics to support those objectives.

The Special Committee and the Board concluded that additional anticipated advantages of these transactions would include the following:

